



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

*For the Two Fiscal Years Ended
June 30, 2012*

OCTOBER 2012

LEGISLATIVE AUDIT
DIVISION

12-15

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Cindy Jorgenson
Angie Grove

October 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Corrections for the two fiscal years ended June 30, 2012. Expenditures for those two years totaled approximately \$375.7 million, of which 90 percent were funded with General Fund appropriations.

This report contains three recommendations to the department related to the license plate Internal Service Fund, the inmate welfare account, and the lack of documentation and testing of internal controls. The department's response to the audit recommendations begins on page B-1, at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Director's Office	Mike Ferriter, Director	
Administrative & Financial Services	Rhonda Schaffer, Division Administrator	
Staff Services	Steve Barry, Division Administrator	
Information Technology	John Daugherty, Division Administrator	
Adult Community Corrections	Pam Bunke, Division Administrator	
Secure Custody Facilities	Leroy Kirkegard, Warden, Montana State Prison	
	Jo Acton, Warden, Women's Prison	
Montana Correctional Enterprises	Gayle Lambert, Division Administrator	
Youth Services	Cindy McKenzie, Division Administrator	
Board of Pardons and Parole	Fern Osler, Executive Director	
	<u>Board Members</u>	<u>Term Expires</u>
	Michael E. McKee, Chair	1/1/2015
	Margaret Hall-Bowman, Vice Chair	1/1/2014
	John Rex	1/1/2015
	Darryl Dupuis	1/1/2014
	Samual Lemaich	1/1/2013
	Teresa McCann-O'Connor	1/1/2013
	John Ward	1/1/2013
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

For the Two Fiscal Years Ended June 30, 2012

OCTOBER 2012

12-15

REPORT SUMMARY

The Department of Corrections (department) manages adult male and female offenders through secure-care facilities, prerelease centers, probation and parole activities, and treatment programs. The Youth Services Division holds juvenile offenders accountable for their actions through custody, supervision, restitution, and life skills development. Total expenditures in fiscal year 2012 were \$189.7 million. Approximately 90 percent of this amount is funded by General Fund appropriations.

Context

The department promotes public safety and trust by holding adult and juvenile offenders, referred by the courts, accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development. Skill development includes various programs at the prisons such as carpentry, print and sign shop, dog training program, ranching, dairy operations, lumber processing, fire fighting, motor vehicle maintenance, and cooking. The department supervises offenders through five prisons, three youth facilities, seven treatment programs, three assessment and sanction centers, and six prerelease centers.

Results

The audit resulted in three recommendations to the department. Those recommendations relate to maintaining fees commensurate with costs in the license plate Internal Service Fund, deposits to the inmate welfare account, and documenting and testing internal controls.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2012, to meet the following objectives:

1. Determine if the department's financial schedules present fairly the results of operations and changes in fund balances and property held in trust of the department for each of the two fiscal years ended June 30, 2011, and June 30, 2012.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine the department's compliance with selected applicable state laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit effort on expenditures related to personal services and the housing and medical treatment of offenders in the various contracted facilities, as well as the state prisons. We also reviewed and tested revenues generated by the prison ranch and programs operated by the Montana Correctional Enterprises. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state laws.

In accordance with §5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report. As required by §17-8-101(6), MCA, we reviewed the Internal Service Fund fees and fund equity balances at the department. We found that fees and fund equity for the prison industries and cook-chill funds are reasonable for the two years ending June 30, 2012. The fees and fund equity in the license plate fund are not reasonable and we report on this activity beginning on page 7.

Background

Table 1 on page 4 shows information related to adult populations, and Table 2 on page 5 shows information on youth populations. The department's five programs are described below. Authorized full-time equivalent employees (FTE) for fiscal year 2012 are noted for each program.

Administration and Financial Services (105 FTE) includes the Director's Office, Health Services, Information Services Division, Staff Services Division, Administrative

and Financial Services Division, and the administratively attached Board of Pardons and Parole. This program provides services to the department, governmental entities, and the public in the areas of public and victim information, human resource management, staff development and training, American Indian liaison services, policy management, information technology, legal information, technical correctional services, research and statistics, medical services management, project management, payroll, budgeting and program planning, contract development, federal grants management, victim restitution, supervision fee collection, accounting, budgeting, and various administrative and management support functions.

Adult Community Corrections (258 FTE) program includes the supervision for adult offenders. This includes the Interstate Compact Unit; Adult Probation and Parole; Treasure State Correctional Training Center; Warm Springs Addiction Treatment and Change (WATCH) DUI facility; methamphetamine treatment facilities; the Adult Prerelease Unit; the Sanction, Treatment, Assessment, Revocation and Transition (START) program for those who violated conditions of community placement; and programs to divert offenders from prison. Adult Community Corrections provides supervision for approximately 80 percent of the adult offenders in the state correctional system.

Montana Correctional Enterprises (65 FTE) is responsible for the following programs:

- ♦ **Industries** - includes furniture, upholstery, print, sign, laundry, and wag bag assembly at Montana State Prison; sewing and embroidery, heat transfers, hygiene kit assembly, custom lanyard manufacturing, bow sight assembly, gun sling assembly and packaging, and oversight of the Prison Paws for Humanities Dog Training Program at Montana Women's Prison. In addition, the Industries program operates the Montana State Prison Hobby Store located in Deer Lodge. The Industries program sells products and services to governmental agencies and nonprofit organizations, and through dealer networks.
- ♦ **Agriculture** - includes beef and dairy cattle, crops, feedlot, dairy milking parlor, dairy processing, lumber processing, wild land fire crew, and community worker program, all located at the Montana State Prison facility. Dairy products are sold to governmental agencies and nonprofit organizations, and through contracts. Agriculture products are sold on the open market.
- ♦ **Vocational Education** - operates a motor vehicle maintenance shop, offers vocational education classes, and assists inmates in obtaining driver's licenses.
- ♦ **Food Factory** - operates a cook-chill operation and bakery, which provide food products to various institutions and nonprofit organizations.

- ♦ **Canteen** - provides commissary items to inmates in the Montana State Prison, Montana Women's Prison, Elkhorn Treatment Center, Dawson County Correctional Facility, Cascade County Correctional Facility, and the Crossroads Correctional Center.
- ♦ **License Plate Factory** - provides over 125 different types of license plates to the Department of Justice Motor Vehicle Division.

Secure Custody Facilities (698 FTE) includes the Montana State Prison (MSP) in Deer Lodge, Montana Women's Prison (MWP) in Billings, and contract facilities, which include Crossroads Correctional Center in Shelby, Dawson County Correctional Facility in Glendive, and Cascade County Regional Prison in Great Falls. Contract facilities provide for the custody, treatment, training, and rehabilitation of 20 percent of the adult offenders in the state correctional system.

Youth Services Division (203 FTE) holds juvenile offenders accountable for their actions through custody, supervision, restitution and life-skills development. The division has three primary operations described below:

- ♦ **Pine Hills Youth Correctional Facility** in Miles City is a 120-bed, secure-care program for males 10-17 years old who are judged delinquent by the Youth Court.
- ♦ **Riverside Youth Correctional Facility** in Boulder is a 20-bed, secure-care program for females 10-17 years old who are judged delinquent by the Youth Court.

Both facilities offer year-round educational programs and focus on counseling, treatment programs, spiritual activities, daily recreation, and life skills and work restitution programs.

- ♦ **Youth Community Corrections Bureau** provides intensive supervision to all youth in community placements and works with community teams to support youths' successful re-entry, providing services corresponding to assessed youth needs. The bureau oversees juvenile parole supervision, and financial and program services for both juvenile probation and juvenile parole. While juvenile probation is organized under the Office of Court Administration in the Judicial Branch, the Youth Community Corrections Bureau administers funds appropriated for juvenile placements and the Juvenile Delinquency Intervention Act.

Prior Audit Recommendations

Our prior audit report of the department for the two fiscal years ending June 30, 2010, contained eight recommendations. The department implemented seven of the recommendations and did not implement one. The recommendation not implemented relates to complying with state accounting policy concerning internal control. We discuss this again beginning on page 9.

Table 1
Department of Corrections Adult Population

	FY2008	FY2009	FY2010	FY2011	FY2012
MALE PRISON BEDS					
Montana State Prison–Deer Lodge	1,391	1,416	1,455	1,445	1,469
Great Falls Regional Prison–Great Falls	143	150	150	151	151
Dawson County Regional Prison–Glendive	141	143	143	143	142
Crossroads Correctional Center–Shelby	495	536	543	551	549
MSP Jail Hold	34	55	51	60	32
TOTAL MALE PRISON	2,204	2,300	2,342	2,350	2,343
% Change	-5%	4%	2%	0.3%	-0.3%
FEMALE PRISON BEDS					
Montana Women's Prison–Billings	148	168	164	187	196
Intensive Challenge Program–MWP–Billings	17	17	3	0	
MWP Jail Hold	4	6	4	6	7
TOTAL FEMALE PRISON	169	191	171	193	203
% Change	-22%	13%	-10%	13%	5%
ALTERNATIVES TO PRISON - COMMUNITY CORRECTIONS					
Male Community Corrections Jail Hold	44	68	69	65	97
Female Community Corrections Jail Hold	12	14	16	22	24
County Jail Sanctions	7	7	6	4	4
TSCTC Boot Camp (male)–Deer Lodge	54	54	54	53	53
Missoula Assessment and Sanction Center	137	137	137	138	139
START (Revocations)–Warm Springs	59	72	74	110	128
START (Sanctions)–Warm Springs	24	16	15	7	3
Passages Assessment	13	15	14	16	18
Passages Revocations–Billings	16	27	28	33	33
Passages Sanctions	4	4	4	2	2
Connections Corrections (male)–Butte/Warm Springs	92	92	97	101	104
Passages ADT (female)–Billings	24	29	35	37	35
Meth Treatment (male)–Lewistown	81	83	84	83	82
Meth Treatment (female)–Boulder	40	40	38	36	40
WATCH Program (male)–Warm Springs	107	110	110	112	114
WATCH Program (male)–Glendive	22	20	32	28	35
WATCH Program (female)–Glendive	20	24	18	20	17
TOTAL ALTERNATIVES TO PRISON	756	812	831	867	928
% Change	17%	7%	2%	4%	7%
PRERELEASE/TRANSITIONAL LIVING–COMMUNITY CORRECTIONS					
Prelease (male)	651	656	679	658	646
Prelease (female)	138	132	163	164	163
Transitional Living (male/female)	60	47	58	77	82
TOTAL PRERELEASE/TRANSITIONAL LIVING	849	835	900	899	891
% Change	5%	-2%	8%	-0.1%	-0.9%
SPECIALIZED SUPERVISION PROGRAMS–COMMUNITY CORRECTIONS					
Intensive Supervision Program (ISP)	309	323	328	288	294
Day Reporting Program (DR)	17	17	21	20	25
Treatment and Accountability Program					24
Number of ISP/DR Officers	17	17	16	16	18.5
TOTAL SPECIALIZED SUPERVISION	326	340	349	308	343
% Change	-2%	4%	3%	-12%	12%
PROBATION & PAROLE–COMMUNITY CORRECTIONS					
Probation & Parole	8,451	8,413	8,266	8,234	8,051
Enhanced Supervision Program	107	135	127	140	118
Number of P&P Officers	113.5	117.5	126	126	122.5
TOTAL PROBATION & PAROLE	8,558	8,548	8,393	8,374	8,169
% Change	5%	-0.1%	-2%	-0.2%	-2%
TOTAL Average Daily Population	12,862	13,026	12,986	12,991	12,876
% Change	3%	1%	-0.3%	-0.04%	-0.9%
Change From Previous Year	416	164	-40	5	-115

Source: Compiled by the Department of Corrections.

Table 2
Department of Corrections Youth Population

Youth Secure	2010	2011	2012
Pine Hills	76	67	64
Riverside	15	10	12
Total Youth Secure	91	77	76
Youth Parole	2010	2011	2012
Male Youth Treatment Center	8	5	5
Female Youth Treatment Center	2	4	2
Other Male Parole	49	33	37
Other Female Parole	12	14	11
Total Youth Parole	71	56	55

Source: Compiled by the Legislative Audit Division from Department of Corrections records.

Chapter II – Findings and Recommendations

License Plate Internal Service Fund

Fees and fund equity for the license plate Internal Service Fund are not reasonable.

An Internal Service Fund (ISF) accounts for manufacturing license plates by Montana Correctional Enterprises (MCE) for all vehicle license plates. Per §17-8-101(6), MCA, fees and fund equity balances in Internal Service Funds must be based upon commensurate costs. We reviewed the license plate factory ISF activity and found fees and fund equity in the fund were not reasonable in fiscal years 2011 and 2012. In order to determine the reasonableness of fund equity and if fees are commensurate with costs we analyzed working capital balances at June 30, 2011, and 2012. State accounting policy defines working capital as the amount of cash that would remain if all current assets were converted and all current liabilities paid. The policy notes that working capital is used in the state proprietary rate calculation and budgetary processes and refers to an allowable 60-day working capital balance.

At June 30, 2011, we estimated working capital exceeded need by \$817,000 which equates to 236 days of working capital. At June 30, 2012, working capital exceeded need by \$156,000 or 114 days. The 2011 Legislature approved a rate to be charged for each set of plates. This rate included a fee to cover processing and distribution costs payable by the Montana Department of Justice. Management said that not all of the processing and distribution costs anticipated actually occurred and as a result revenue collected exceeded cost.

To mitigate the excess working capital, the department returned approximately \$1 million to a State Special Revenue Fund at the Department of Justice at the end of fiscal year 2012. This action helped to reduce excess working capital. Continued periodic analysis of collections and expenditures would enable the department to make necessary rate adjustments to be in compliance with state law. The department has the option to reduce the amount charged below the approved rate if necessary and periodic analysis of working capital will enable the department to make necessary rate adjustments.

RECOMMENDATION #1

We recommend the department comply with state law by ensuring fees charged for license plates are commensurate with costs and, when necessary, reducing rates to maintain a reasonable fund equity balance.

Deposits to the Inmate Welfare Account

The department did not deposit all net proceeds from the canteen operations and confiscated contraband to the inmate welfare account as required by state law.

Section 53-1-109, MCA, provides for an inmate welfare account (IWA), in the State Special Revenue Fund to benefit inmates held in designated state and contract custody facilities in Montana. Monies deposited to this account come from canteen net proceeds and earnings from inmate telephone service providers. Section 53-1-105, MCA, requires confiscated cash and receipts from the sale of contraband to be deposited in the IWA.

In fiscal year 2011, net canteen proceeds were \$110,444, but only \$55,222 was transferred to the IWA. In fiscal years 2011 and 2012, a total of \$500 in contraband cash was deposited into the General Fund instead of the IWA. Earnings from telephone service providers were deposited into the IWA.

The department noted that they only transfer a portion of the net proceeds in order to maintain an operating balance in the canteen account; however, this is contrary to the requirement of state law. Accounting staff indicated they were aware of the law's deposit requirement, but did not notice that the cash was deposited into the General Fund instead of the IWA.

After we discussed these issues with the department, net canteen proceeds and the confiscated cash were transferred to the IWA.

RECOMMENDATION #2

We recommend the department comply with state law and deposit canteen net proceeds and contraband cash into the Inmate Welfare Account each fiscal year.

Documenting and Testing of Internal Controls

The department has not completely documented, or tested, its internal controls as required by state accounting policy.

For the past two audits, we made recommendations to the department to implement state accounting policy by documenting the department's internal control structure and to conduct testing of control procedures. During the current audit, we found the existing internal control documentation does not always reflect the department's processes. As an example, we found the department used a generic template for documenting its processes. In some cases, the template was modified, but still contained generic information that does not apply to the department. In addition, we found that no control testing had been completed by the end of the audit period.

Per state accounting policy effective December 2007, management is responsible for establishing and maintaining agency internal control which includes documenting and testing controls. Documentation of control processes and procedures provides written guidance to personnel in carrying out program responsibilities and recording financial transactions. State accounting policy further dictates that management is expected to conduct reviews, tests, and analyses of internal controls to ensure their proper operation. Testing controls assists management in identifying weaknesses in the design or operation of controls and could help prevent material errors or fraud from occurring.

Management noted that turnover in positions and the loss of a compliance monitoring position were factors that contributed to the delay of fully implementing state policy. To address this, the department assigned responsibility for internal control documentation and testing directly to the Administrative and Financial Services Division. At the end of the audit period, we did observe that the department had started to make some progress in implementing the prior audit recommendations. An assessment was completed to identify areas of risk and a time line for testing internal control was developed.

RECOMMENDATION #3

We recommend the department comply with state accounting policy and update internal control documentation to reflect the department's processes and procedures, and implement its plan for testing internal controls.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Corrections for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

August 14, 2012

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2011	\$ (8,632,348)	\$ 2,849,993	\$ (112)	\$ 11,489,927	\$ 5,993,623	\$ 1,075
PROPERTY HELD IN TRUST: July 1, 2011						\$ 705,239
ADDITIONS						
Budgeted Revenues & Transfers-In	132,843	4,746,496	797,673	7,270,894	5,930,890	
Nonbudgeted Revenues & Transfers-In	50			299,429		
Prior Year Revenues & Transfers-In Adjustments		72,949		40,000	(578,874)	(1,072)
Direct Entries to Fund Balance	169,287,378	45,848	15,708	(61,265)	(207,228)	
Additions to Property Held in Trust						7,900,655
Total Additions	<u>169,420,271</u>	<u>4,865,293</u>	<u>813,381</u>	<u>7,549,058</u>	<u>5,144,788</u>	<u>7,899,583</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	170,210,323	5,368,114	813,679	6,878,910	5,663,746	
Nonbudgeted Expenditures & Transfers-Out	(44,790)			(403,073)	1,243,301	
Prior Year Expenditures & Transfers-Out Adjustments	16,320	17,115			(528)	
Reductions in Property Held in Trust						7,806,343
Total Reductions	<u>170,181,853</u>	<u>5,385,229</u>	<u>813,679</u>	<u>6,475,837</u>	<u>6,906,519</u>	<u>7,806,343</u>
FUND BALANCE: June 30, 2012	\$ (9,393,930)	\$ 2,330,057	\$ (410)	\$ 12,563,148	\$ 4,231,892	\$ 3
PROPERTY HELD IN TRUST: June 30, 2012						\$ 799,551

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2010	\$ (7,559,255)	\$ 3,083,555	\$ (1,299)	\$ 11,361,749	\$ 4,002,477	\$ 3
PROPERTY HELD IN TRUST: July 1, 2010						\$ 690,070
ADDITIONS						
Budgeted Revenues & Transfers-In	202,746	4,405,367	981,116	6,253,634	6,378,517	
Nonbudgeted Revenues & Transfers-In	3,917	1,219		75,822		1,072
Prior Year Revenues & Transfers-In Adjustments	(7,364)	66,064				
Direct Entries to Fund Balance	165,569,285	59,786	1,372,644		1,425,265	
Additions to Property Held in Trust						7,562,105
Total Additions	<u>165,768,584</u>	<u>4,532,436</u>	<u>2,353,760</u>	<u>6,329,456</u>	<u>7,803,782</u>	<u>7,563,177</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	166,866,342	4,766,568	2,352,573	6,324,288	5,335,571	
Nonbudgeted Expenditures & Transfers-Out				(124,833)	477,065	
Prior Year Expenditures & Transfers-Out Adjustments	(24,665)	(570)		1,823		
Reductions in Property Held in Trust						7,546,936
Total Reductions	<u>166,841,677</u>	<u>4,765,998</u>	<u>2,352,573</u>	<u>6,201,278</u>	<u>5,812,636</u>	<u>7,546,936</u>
FUND BALANCE: June 30, 2011	\$ <u>(8,632,348)</u>	\$ <u>2,849,993</u>	\$ <u>(112)</u>	\$ <u>11,489,927</u>	\$ <u>5,993,623</u>	\$ <u>1,075</u>
PROPERTY HELD IN TRUST: June 30, 2011						\$ <u>705,239</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Charges for Services		\$ 1,654,829		\$ 11,226		\$ (1,072)	\$ 1,664,983
Fines and Forfeits		4,970					4,970
Sale of Documents, Merchandise and Property		2,240,518		7,268,529	\$ 5,352,016		14,861,063
Contributions and Premiums	\$ 50						50
Grants, Contracts, and Donations		517,048					517,048
Transfers-in		393,279	\$ 364,522	61,000			818,801
Capital Asset Sale Proceeds				269,568			269,568
Federal Indirect Cost Recoveries	37,824						37,824
Miscellaneous	95,019	8,801					103,820
Federal			433,151				433,151
Total Revenues & Transfers-In	132,893	4,819,445	797,673	7,610,323	5,352,016	(1,072)	18,711,278
Less: Nonbudgeted Revenues & Transfers-In	50			299,429			299,479
Prior Year Revenues & Transfers-In Adjustments		72,949		40,000	(578,874)	(1,072)	(466,997)
Actual Budgeted Revenues & Transfers-In	132,843	4,746,496	797,673	7,270,894	5,930,890	0	18,878,796
Estimated Revenues & Transfers-In	227,700	4,885,760	1,198,878	7,283,567	5,838,500		19,434,405
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (94,857)	\$ (139,264)	\$ (401,205)	\$ (12,673)	\$ 92,390	\$ 0	\$ (555,609)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services		\$ (102,668)		\$ (13,774)			\$ (116,442)
Fines and Forfeits		(5,030)					(5,030)
Sale of Documents, Merchandise and Property		209,778		1,101	\$ 92,390		303,269
Grants, Contracts, and Donations		(188,752)					(188,752)
Transfers-in	\$ (22,000)	(16,393)	\$ (92,339)				(130,732)
Federal Indirect Cost Recoveries	32,124						32,124
Miscellaneous	(104,981)	(36,199)					(141,180)
Federal			(308,866)				(308,866)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (94,857)	\$ (139,264)	\$ (401,205)	\$ (12,673)	\$ 92,390	\$ 0	\$ (555,609)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
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DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 3,967	\$ 1,219				\$	5,186
Charges for Services		1,728,202		\$ 19,397		\$ 1,072	1,748,671
Fines and Forfeits		3,345					3,345
Capital Contributions	50,000				\$ 24,109		74,109
Sale of Documents, Merchandise and Property		1,871,406		6,260,509	6,354,408		14,486,323
Contributions and Premiums	(7,452)						(7,452)
Grants, Contracts, and Donations		527,086					527,086
Transfers-in		332,900	\$ 381,764				714,664
Capital Asset Sale Proceeds				49,550			49,550
Federal Indirect Cost Recoveries	55,375						55,375
Miscellaneous	97,409	8,492					105,901
Federal			599,352				599,352
Total Revenues & Transfers-In	199,299	4,472,650	981,116	6,253,456	6,378,517	1,072	18,362,110
Less: Nonbudgeted Revenues & Transfers-In	3,917	1,219		75,822		1,072	82,030
Prior Year Revenues & Transfers-In Adjustments	(7,364)	66,064					58,700
Actual Budgeted Revenues & Transfers-In	202,746	4,405,367	981,116	6,253,634	6,378,517	0	18,221,380
Estimated Revenues & Transfers-In	277,700	4,726,356	1,693,141	7,222,567	5,621,200		19,540,964
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (74,954)	\$ (320,989)	\$ (712,025)	\$ (968,933)	\$ 757,317	\$ 0	\$ (1,319,584)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services		\$ 104,015		\$ (5,603)			\$ 98,412
Fines and Forfeits		(6,655)					(6,655)
Capital Contributions					\$ (91)		(91)
Sale of Documents, Merchandise and Property		(159,334)		(963,330)	757,408		(365,256)
Grants, Contracts, and Donations		(138,714)					(138,714)
Transfers-in	\$ (22,000)	(83,793)	\$ (68,741)				(174,534)
Federal Indirect Cost Recoveries	49,675						49,675
Miscellaneous	(102,629)	(36,508)					(139,137)
Federal			(643,284)				(643,284)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (74,954)	\$ (320,989)	\$ (712,025)	\$ (968,933)	\$ 757,317	\$ 0	\$ (1,319,584)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration & Financial Services	Adult Community Corrections	Montana Correctional Enterprises	Secure Custody Facilities	Youth Services	Total
Personal Services						
Salaries	\$ 4,788,639	\$ 10,500,531	\$ 2,746,778	\$ 26,249,125	\$ 7,542,372	\$ 51,827,445
Hourly Wages			486,218	318,737	30,199	835,154
Other Compensation	33,325					33,325
Employee Benefits	1,565,956	4,345,316	1,090,375	10,928,264	3,154,209	21,084,120
Personal Services-Other			(54,646)			(54,646)
Total	6,387,920	14,845,847	4,268,725	37,496,126	10,726,780	73,725,398
Operating Expenses						
Other Services	10,345,368	42,660,914	163,187	29,052,444	836,698	83,058,611
Supplies & Materials	833,572	673,841	2,433,221	5,798,113	917,842	10,656,589
Communications	693,958	250,553	27,027	136,907	63,611	1,172,056
Travel	93,907	113,158	17,951	150,439	93,663	469,118
Rent	417,765	1,392,468	117,151	200,865	202,862	2,331,111
Utilities		65,611	295,247	930,693	302,935	1,594,486
Repair & Maintenance	51,020	61,968	645,323	395,932	84,416	1,238,659
Other Expenses	331,261	98,164	942,408	273,768	83,206	1,728,807
Goods Purchased For Resale			6,200,070		3,239	6,203,309
Total	12,766,851	45,316,677	10,841,585	36,939,161	2,588,472	108,452,746
Equipment & Intangible Assets						
Equipment		15,500	(52,700)	160,351		123,151
Total		15,500	(52,700)	160,351		123,151
Benefits & Claims						
From State Sources					2,278,826	2,278,826
From Federal Sources					16,005	16,005
Total					2,294,831	2,294,831
Transfers-out						
Fund transfers		12,500	1,093,560	54,300	3,464,036	4,624,396
Intra-Entity Expense				895		895
Total		12,500	1,093,560	55,195	3,464,036	4,625,291
Debt Service						
Loans		28,740		324,955	20,878	374,573
Total		28,740		324,955	20,878	374,573
Other Post Employment Benefits						
Other Post Employment Benefits			167,127			167,127
Total			167,127			167,127
Total Expenditures & Transfers-Out	\$ 19,154,771	\$ 60,219,264	\$ 16,318,297	\$ 74,975,788	\$ 19,094,997	\$ 189,763,117
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 18,537,767	\$ 58,579,199	\$ 801,597	\$ 74,317,748	\$ 17,945,542	\$ 170,181,853
State Special Revenue Fund	486,137	1,288,593	2,232,366	506,723	871,410	5,385,229
Federal Special Revenue Fund	32,845	351,472		151,317	278,045	813,679
Enterprise Fund	51,527		6,424,310			6,475,837
Internal Service Fund	46,495		6,860,024			6,906,519
Total Expenditures & Transfers-Out	19,154,771	60,219,264	16,318,297	74,975,788	19,094,997	189,763,117
Less: Nonbudgeted Expenditures & Transfers-Out			840,228	(44,790)		795,438
Prior Year Expenditures & Transfers-Out Adjustments	200,651	(9,120)	(527)	(142,351)	(15,745)	32,908
Actual Budgeted Expenditures & Transfers-Out	18,954,120	60,228,384	15,478,596	75,162,929	19,110,742	188,934,771
Budget Authority	19,606,467	60,701,721	16,845,324	76,114,867	19,482,397	192,750,776
Unspent Budget Authority	\$ 652,347	\$ 473,337	\$ 1,366,728	\$ 951,938	\$ 371,655	\$ 3,816,005
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 209,429	\$ 438,680	\$ 14,597	\$ 873,991	\$ 346,759	\$ 1,883,456
State Special Revenue Fund	49,828	1,387	23,863	69,150	682	144,910
Federal Special Revenue Fund	393,090	33,270		8,797		459,371
Enterprise Fund			814,842		24,214	814,842
Internal Service Fund			513,426			513,426
Unspent Budget Authority	\$ 652,347	\$ 473,337	\$ 1,366,728	\$ 951,938	\$ 371,655	\$ 3,816,005

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Adminisration & Financial Services	Adult Community Corrections	Montana Correctional Enterprises	Secure Custody Facilities	Youth Services	Total
Personal Services						
Salaries	\$ 5,121,932	\$ 10,708,702	\$ 2,750,221	\$ 26,378,024	\$ 7,913,431	\$ 52,872,310
Hourly Wages	657		501,473	367,476	33,972	903,578
Other Compensation	37,475					37,475
Employee Benefits	1,653,297	4,423,339	1,138,867	10,758,396	3,258,332	21,232,231
Personal Services-Other			15,321			15,321
Total	6,813,361	15,132,041	4,405,882	37,503,896	11,205,735	75,060,915
Operating Expenses						
Other Services	8,795,574	41,100,265	171,004	28,359,621	941,607	79,368,071
Supplies & Materials	727,503	692,031	2,220,127	5,104,742	885,631	9,630,034
Communications	889,719	242,258	24,972	127,221	55,721	1,339,891
Travel	79,120	130,484	23,312	134,986	79,054	446,956
Rent	568,641	1,618,269	87,296	226,591	235,000	2,735,797
Utilities		84,202	314,234	1,842,128	341,472	2,582,036
Repair & Maintenance	70,946	78,187	695,596	382,607	128,089	1,355,425
Other Expenses	127,543	93,139	1,009,057	247,477	71,575	1,548,791
Goods Purchased For Resale			5,612,617		2,646	5,615,263
Total	11,259,046	44,038,835	10,158,215	36,425,373	2,740,795	104,622,264
Equipment & Intangible Assets						
Equipment		12,500	90,280	115,983	8,950	227,713
Total		12,500	90,280	115,983	8,950	227,713
Benefits & Claims						
From State Sources					2,731,248	2,731,248
From Federal Sources					11,710	11,710
Total					2,742,958	2,742,958
Transfers-out						
Fund transfers				7,234	3,130,460	3,137,694
Intra-Entity Expense				6,147		6,147
Total				13,381	3,130,460	3,143,841
Other Post Employment Benefits						
Other Post Employment Benefits			176,471			176,471
Total			176,471			176,471
Total Expenditures & Transfers-Out	\$ 18,072,407	\$ 59,183,376	\$ 14,830,848	\$ 74,058,633	\$ 19,828,898	\$ 185,974,162
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 17,468,417	\$ 57,757,164	\$ 1,067,867	\$ 72,307,868	\$ 18,240,361	\$ 166,841,677
State Special Revenue Fund	455,896	860,541	1,801,264	619,761	1,028,536	4,765,998
Federal Special Revenue Fund	64,391	565,671	31,506	1,131,004	560,001	2,352,573
Enterprise Fund	46,605		6,154,673			6,201,278
Internal Service Fund	37,098		5,775,538			5,812,636
Total Expenditures & Transfers-Out	18,072,407	59,183,376	14,830,848	74,058,633	19,828,898	185,974,162
Less: Nonbudgeted Expenditures & Transfers-Out			352,232			352,232
Prior Year Expenditures & Transfers-Out Adjustments	(15,654)	47	1,823	(770)	(8,857)	(23,411)
Actual Budgeted Expenditures & Transfers-Out	18,088,061	59,183,329	14,476,793	74,059,403	19,837,755	185,645,341
Budget Authority	18,818,206	64,372,867	17,478,855	77,325,282	21,321,467	199,316,677
Unspent Budget Authority	\$ 730,145	\$ 5,189,538	\$ 3,002,062	\$ 3,265,879	\$ 1,483,712	\$ 13,671,336
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 549,786	\$ 4,195,197	\$ 5,723	\$ 3,158,535	\$ 1,389,460	\$ 9,298,701
State Special Revenue Fund	172,269	609,599	92,563	76,415	69,046	1,019,892
Federal Special Revenue Fund	8,090	384,742	64,793	30,929	25,206	513,760
Enterprise Fund			1,019,267			1,019,267
Internal Service Fund			1,819,716			1,819,716
Unspent Budget Authority	\$ 730,145	\$ 5,189,538	\$ 3,002,062	\$ 3,265,879	\$ 1,483,712	\$ 13,671,336

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The General Fund is the primary source of funding for department operations. Department expenditures for the two

years ending June 30, 2012, totaled approximately \$375.7 million. General Fund appropriations funded 90 percent of these expenditures.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. The department has several state special revenue funds that account for activities including probation supervision fees, canteen, inmate welfare, restitution, income and interest from state lands, and third party contributions for juvenile placement.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include resources for the re-entry initiative programs, the Prison Rape Elimination Act, substance abuse treatment, school foods, and various education programs.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Currently the department's Internal Service Funds include the state prison industries training, cook/chill programs, and license plate production.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include the prison ranch and industries programs.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds account for moneys belonging to inmates of facilities and restitution for victims.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund,

resulting in negative ending General Fund balances for the fiscal years ended June 30, 2012, and June 30, 2011.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General Fund in fiscal years 2012 and 2011 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Contractual Commitments

At June 30, 2012, the department had contractual commitments of approximately \$27.3 million and the department made bond payments on those contracts totaling \$3.1 million in fiscal year 2012. The department is contractually required to make bond payments on behalf of four prerelease and two drug treatment centers to cover the construction costs of these facilities. These costs are then recovered through the center's monthly billing for inmate room and board.

5. Unspent Budget Authority

As noted on the Schedule of Total Expenditures & Transfers-Out for Fiscal Year 2011, the department had \$13.6 million in unspent budget authority. The majority of this is primarily attributed to \$4.2 million in budget reductions and \$5.0 million in funding reversions in the General Fund.

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE

**DEPARTMENT OF CORRECTIONS**

BRIAN SCHWEITZER, GOVERNOR

5 SOUTH LAST CHANCE GULCH

STATE OF MONTANA(406) 444-3930
FAX (406) 444-4920PO BOX 201301
HELENA, MONTANA 59620-1301

September 24, 2012

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SEP 25 2012

LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, CPA
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Re: Response to Legislative Audit Recommendations

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the financial compliance audit report for the Department of Corrections. We have reviewed the recommendations contained in the report and our responses are as follows:

RECOMMENDATION #1:

We recommend the department comply with state law by ensuring fees charged for license plates are commensurate with costs and, when necessary, reducing rates to maintain reasonable fund equity balance.

Response:

Concur. The department complied with state law by setting its fees based on what it anticipated costs would be. That projection properly included the costs of program additions to the license plate operation that were authorized in SB508 and planned in cooperation with the Department of Justice. However, some of the program additions could not be started due to circumstances beyond the control of the Department of Corrections. Prior to setting fees for the 2015 biennium, the department will work with the Motor Vehicle Division in the Justice Department to clarify when and if these programmatic areas will be addressed. As the new fees are developed, they will include the costs of the services outlined in SB508, but the rates will be reduced in the event the division is not prepared for the department to deliver all of those services. The department will continue to monitor the Internal Service Fund and adjust the rates accordingly to comply with 17-8-101(6), MCA.

Ms. Tori Hunthausen
September 24, 2012
Page 2

RECOMMENDATION #2:

We recommend the department comply with state law and deposit canteen net proceeds and contraband cash into the inmate welfare account each fiscal year.

Response:

Concur. The department will continue to comply with state law as all net proceeds from the canteen account and 100% of the confiscated contraband cash has been deposited in the inmate welfare account. All future activity will be recorded in accordance with 53-1-109.

RECOMMENDATION #3:

We recommend the department comply with state accounting policy and update internal control documentation to reflect the department's processes and procedures and implement the plan for testing internal controls.

Response:

Concur. The department will continue to comply with state accounting policies and formalize the documentation of internal controls and implement testing of those controls.

We appreciate the legislative staff time devoted to this audit. They were professionals throughout the process and their willingness to assist with any issue was exceptional.

We look forward to working with your office in the future.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mike Ferriter".

Mike Ferriter
Director

**Department of Corrections – Corrective Action Plan Status
As of September 26, 2012 DRAFT**

1 of 1

Division/ Facility	Audit Report & Rec #	Recommendation	Management View	CAP – Corrective Action Plan	Person responsible	Target Date
MCE	Leg FC 12-15 Rec. #1	We recommend the department comply with state law by ensuring fees charged for license plates are commensurate with costs and, when necessary, reducing rates to maintain reasonable fund equity balance.	Concur	MCE will meet with DOJ to discuss the components established within the rate to determine the 2013 and 2015 rates.	Gayle Lambert	Monthly meetings to be held with DOJ and AFSD to discuss rate structure.
MCE	Leg FC 12-15 Rec. #2	We recommend the department comply with state law and deposit canteen net proceeds and contraband cash into the Inmate Welfare Account each fiscal year.	Concur	MCE has and will continue to deposit the net canteen proceeds into the inmate welfare account. Training of accounting staff to ensure transactions are verified.	Gayle Lambert Rhonda Schaffer	6/30/12 Entries completed prior to fiscal year end. 6/30/12 Correcting entry completed prior to fiscal year end.
AFSD	Leg FC 12-15 Rec. #3	We recommend the department comply with state accounting policy and update internal control documentation to reflect the department's processes and procedures and implement its plan for testing internal controls.	Concur	AFSD will continue to implement the timeline for internal control testing.	Rhonda Schaffer	6/30/13 Complete internal control testing as scheduled.